

## 2001 Country Reports on Economic Policy and Trade Practices

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### JAMAICA

#### Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001	1/
<i>Income, Production and Employment:</i>				
Nominal GDP	6,818.2	6,894.8	6,948.0	
Real GDP Growth (pct) 2/	-0.4	0.8	0.5	
GDP by Sector:				
Agriculture, Forestry and Fishing	509.7	479.4	N/A	
Mining and Quarrying	305.4	319.2	N/A	
Manufacturing	987.0	990.4	N/A	
Construction and Installation	703.5	713.9	N/A	
Electricity and Water	260.5	297.2	N/A	
Transportation, Storage, and Communication	735.8	731.9	N/A	
Retail Trade	1,468.9	1,476.0	N/A	
Real Estate Services	421.7	419.7	N/A	
Government Services	865.6	838.6	N/A	
Finance	554.1	567.3	N/A	
Other	524.4	534.5	N/A	
Less Imputed Service Charges	518.3	473.2	N/A	
Per Capita GDP (US\$)	2,643.0	2,652.0	2,670.0	
Labor Force (000s)	1,119.1	1,105.3	N/A	
Unemployment Rate (pct)	15.7	15.5	15.5	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3) 3/	17.3	10.6	2.0	
Consumer Price Inflation	6.8	6.1	7.0	
Exchange Rate (JDOLS/US\$ - annual average)	39.33	43.32	45.90	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	1,247.0	1,300.0	1,285.0	
Exports to United States	461.0	496.0	400.0	
Total Imports CIF	2,904.0	3,191.0	3,267.0	
Imports from United States	1,437.0	1,431.0	1,468.0	
Trade Balance	-1,657.0	-1,891.0	-1,982.0	
Balance with United States	-976.0	-935.0	-1,068.0	

External Public Debt 4/	3,024.1	3,375.2	3,970.0
Fiscal Balance/GDP (pct) 5/	-4.3	1.4	N/A
Current Account Deficit/GDP (pct)	3.7	4.1	N/A
Debt Service Payments/GDP	32.7	32.9	N/A
Net International Reserves 6/	446.3	970.0	1,600.0
Aid from United States 7/	23.1	13.6	14.4
Aid from All Other Sources 8/	165.4	302.7	N/A

1/ 2001 figures are all estimates based on available monthly data as of September 2000.

2/ Growth rate is based on Jamaican dollars whereas nominal GDP is shown in U.S. dollars.

3/ 1999 and 2000 figures is growth from December to December. Figure for 2001 is growth from January-June.

4/ Figure as of May 2001.

5/ Jamaican fiscal year (April-March).

6/ Figure based on September 2001.

7/ Estimates include development, food, and military assistance for FY99, FY00 and FY01.

8/ Estimated disbursements for development assistance from Jamaica's cooperation partners (bilateral and multilateral).

### *1. General Policy Framework*

Jamaica is an import-oriented economy. Imports of goods and services totaled US\$ 4.08 billion or 55 percent of GDP in 2000. Of this total, raw materials amounted to US\$ 1,713 million, while consumer goods and capital goods amounted to US\$ 976 million and US\$ 511 million respectively. Tourism (estimated at 15 percent of GDP), bauxite/alumina (9 percent of GDP), and manufacturing exports (including apparel, processing of sugar, beverages and tobacco estimated at 16 percent of GDP) are the major pillars sustaining the economy. In 2000, these three sectors accounted for about 76 percent (US\$ 2.48 billion) of the country's exports of goods and services. Remittances from Jamaicans living abroad are also a significant source of income and bring in over US\$ 600 million annually. Both GDP and foreign exchange inflows are sensitive to changes in the global economy, particularly with respect to commodity prices and the services/tourism sector.

Jamaica has a work force of 1.11 million, representing 61 percent of total population 14 years and over. Women account for 44.4 percent of the total labor force. About 65 percent of Jamaica's work force is employed in the services sector, contributing about 60 percent of GDP in constant 1986 dollars. Agriculture accounts for 7.1 percent of GDP and employs 22 percent of the workforce. The primary agricultural products are sugar, bananas, coffee, and cocoa. The small size of the domestic market, relatively high production costs, and inexpensive imports have reduced the contribution of the manufacturing sector over the last several years to about 16 percent of GDP in 2000. The apparel industry began to contract in the mid-1990's. Employment in that sector is approximately 13,000, a decline of 64 percent from 1995.

The Jamaican economy grew by 0.8 percent in 2000 after four consecutive years of economic decline. Economic performance from 1995-1999 was hampered by a financial sector crisis, unfavorable international developments, high interest rates limiting economic expansion, adverse weather conditions affecting agriculture and the restructuring (downsizing/mergers and bankruptcies) of companies the result was reduced consumption and falling real investment. Economic performance in 2000 was boosted by 4.4 percent growth in service sectors (tourism, financial sector, electricity, water, transport, storage, and communications). Marginal growth in manufacturing and construction was offset by contraction in agriculture and the bauxite industry, resulting in a net 2.3 percent decline in the goods-producing sectors.

The economic recovery continued into the first half of 2001. However, the recent downturn in the U.S. economy is likely to have a negative impact on the tourist industry and some export industries. Bauxite/alumina and telecommunications are expected to show robust growth this year, while most other sectors may show modest growth. The government has maintained a stable macro economic framework and is committed to continued fiscal and monetary restraint under its IMF Staff Monitored Program (SMP). A sustained reduction in interest rates is a major objective of the 2001 economic program. Lower domestic interest rates would reduce debt-service requirements and encourage private investment.

The Government of Jamaica's five-year program to rescue the banking and insurance sector following the 1996 financial collapse is in its final stages of operation. The Financial Sector Adjustment Company (FINSAC), a government agency established in February 1997 to provide funding and to reorganize illiquid financial institutions, has completed its intervention and rehabilitation phase and is now accelerating the divestment of assets. To facilitate FINSAC's exit, the debt obligations of FINSAC have been addressed by:

- the write off of FINSAC's debt obligations to the public sector entities and to the Central Government;
- the repayment of obligations to the Bank of Jamaica;
- the pay-down of some FINSAC bonds through concessional loans from the Inter-American Development Bank (IDB), CDB and World Bank; and
- the assumption of remaining FINSAC liabilities by the Central Government through the conversion of FINSAC bonds to Local Registered Stocks (long term loans).

Since 1997, a series of amendments to the laws governing the financial sector have been passed to strengthen the regulation of the sector. The most recent is the Financial Services Commission (2000). This commission will be responsible for the efficient regulation and supervision of entities dealing in securities, collective investment funds (eg. unit trusts and mutual funds), investment advisors, the insurance industry, and pension funds.

The Jamaican government's fiscal year (JFY) April 2001/March 2002 budget calls for JDOLS 185.5 billion in outlays. This is a 1.6 percent decline over the revised 2000/01 budget. For JFY 2001/02, recurrent expenditure is estimated at JDOLS 106.4 billion and capital expenditure at JDOLS 79.1 billion. Debt servicing is by far the largest expenditure category, accounting for 62 percent of the total budget. Other major budget expenditures include:

education (10.7 percent), general government services (6.3 percent), public order and safety (5.3 percent), health services (4.2 percent), roads (1.2 percent), tourism (1 percent), and transport and communication services (1 percent).

The Government of Jamaica expects to finance about 59 percent of the JDOLS 185.5 billion in expenditures through a projected total revenue of JDOLS 108.7 billion. Recurrent revenues include: tax and non-tax receipts, capital revenue (royalties, land sales, loan repayments, and divestments), and transfers from the capital development fund (including the bauxite levy). The balance will come from debt including both external borrowing, JDOLS 32.3 billion (or 42.1 percent of the total deficit) and internal borrowing, JDOLS 44.5 billion.

The Bank of Jamaica (BOJ) continues a tight monetary policy and absorbs excess liquidity by issuing long-term securities (local registered stock) and short-term treasury bills. Open market operations is one means by which the Government of Jamaica funds its fiscal deficit. The BOJ continues to reduce excess liquidity through the reverse repurchase of treasury bills.

The BOJ lowered the cash reserve requirement for commercial banks from 25 percent in August 1998 to 10 percent in September 2001. However, commercial banks have been slow to respond by lowering their lending rates and domestic credit is under utilized.

## *2. Exchange Rate Policy*

Jamaica eliminated exchange controls a decade ago. The principal remaining restriction is that foreign exchange transactions must be done through a licensed dealer or cambio. Any company or person required to make payments to the government by agreement or law, such as the levy and royalty due on bauxite, must make those payments directly to the Bank of Jamaica. Authorized dealers and cambios are required to sell a minimum of five percent of their foreign exchange purchases directly to the BOJ. In addition, under an agreement between the Petroleum Company of Jamaica (PETROJAM) and the commercial banks, a further ten percent of foreign exchange purchases are sold to PETROJAM.

In 2000, total foreign exchange inflows through commercial banks and cambios increased by 33.8 percent over 1999 to US\$ 4.6 billion. From January to August 2001, foreign exchange inflows into the official market declined by 5 percent over the corresponding period in 2000 to US\$ 2.4 billion. The average weighted selling rate for the JDOL remained fairly stable moving from JDOLS 45.53 to the U.S. dollar in December 2000, to JDOLS 45.80 to the U.S. dollar in the first eight months of 2001. There is a broad perception in the market that the Jamaican dollar is at least somewhat overvalued. However, the Government of Jamaica is committed to defending the exchange rate within a targeted band.

## *3. Structural Policies*

In general, prices are freely determined. However, certain public utility charges such as bus fares, water, electricity, and telecommunications remain subject to price controls and can be changed only with government approval. The Fair Competition Act provides for an environment of free and fair competition and consumer protection.

According to JFY 01/02 estimates, tax revenues account for 90.5 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (38.8 percent of total tax revenue), value added tax (28.0 percent), special consumption tax (10.9 percent), and import duties (10.4 percent). The budget continues to target inflation through a tight fiscal policy. The government proposes covering the budget deficit by a combination of revenue enhancement measures (such as user fees, drivers license fees and stamp duties), expansion of the tax net, divestment proceeds and by borrowing.

In January 1999, the Caribbean Community (CARICOM) Common External Tariff (CET) reduction was implemented by the Government of Jamaica thus reducing import or customs duty rates on non-CARICOM products to a maximum of 20 percent. Goods originating from CARICOM countries are not subject to import duties. In order to protect local producers, import duties on certain agricultural products, such as chicken, beef, and milk, and certain consumer goods carry higher duty rates. In addition to import duties, certain items such as beverages and tobacco, motor vehicles and some agricultural products carry an additional stamp duty (ranging from 25 – 63 percent) and special consumption tax (ranging from 5 – 39.9 percent). Further, most imported items are subject to the 15 percent General Consumption Tax (GCT).

The responsibility for the procurement of commodities under government to government agreements such as the PL. 480 program was transferred to the Trade Board in FY2000. The Embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

#### *4. Debt Management Policies*

Jamaica's stock of external (foreign) debt increased by 11.6 percent to US\$ 3.38 billion in 2000 following a decline of 8.5 percent in 1999. About 36 percent of the external debt is owed to bilateral donors, of which the United States is the largest, and 33 percent to multilateral institutions. Government securities, primarily bonds, account for 25.6 percent of the external debt, while five percent of the external debt is owed to commercial banks. The balance of external debt, 1.4 percent, is composed of supplier credit and other government liabilities. The British Government has agreed to grant debt relief under the UK/Jamaica Commonwealth Debt Initiative Arrangement for the period of April 1, 1999 to March 31, 2001 amounting to 5.4 million pounds sterling and for the period April 2000 to March 2003 amounting to 11.4 million pounds sterling. In addition, the Canadian government forgave CDOLS 18.1 million in bilateral debt during FY01/02. External debt is likely to show modest growth during the year 2001. Although the bulk of the external debt consists of flows from multilateral and bilateral sources, there has been a growing shift to debt owed to private creditors - largely bond holders.

In 2000, the World Bank reclassified Jamaica from "severely indebted" to "moderately indebted" country. In April 2001, Moody's and S&P upgraded the credit rating to Ba3 and the outlook for Jamaica from "stable" to "positive" respectively. Despite these positive developments, total debt service obligations continue to be of serious concern. According to JFY01/02 official budget projections, debt servicing will account for 62 percent of total expenditures. In July 2000, Jamaica reached an agreement with the Fund on a Staff-Monitored Program (SMP), under which IMF staff will work with the Government of Jamaica to monitor compliance with a mutually-agreed medium-term economic program.

The Government of Jamaica has outlined medium-term strategies to manage the debt problem that include: renegotiating and refinancing domestic debt, lowering interest rates, reducing the volume of domestic debt and accessing external capital market for additional funds.

Official external debt increased by 17.8 percent from January through May 2001, to US\$ 3.97 billion. A US\$ 153.5 million Eurobond issue in February and a US\$ 400 million Eurobond issue in May contributed to the increase. According to the Ministry of Finance, the government borrowed on international capital markets early this year in order to take advantage of "opportunities in the capital market" and to shift the government's high-interest, Jamaican dollar denominated paper to dollar and euro denominated paper at minimum cost. Ministry of Finance officials expect no significant borrowing during the rest of the year. Total external debt is expected to fall during the second half of the year as the government continues scheduled repayments without taking on new obligations.

Jamaica's internal (domestic) debt has ballooned over the last five years, from JDOLS 77.7 billion in 1996 to JDOLS 187.5 billion in 2000. As of May 2001, internal debt stood at JDOLS 284.6 billion. This rapid increase was due largely to the conversion of FINSAC debt into Local Registered Stock (LRS – long term government securities) in order to bring obligations incurred during the financial sector clean up "on budget." Domestic debt is composed of government securities such as: T-bills (4.1 percent), Local Registered Stock (71.9 percent), bonds (22.4 percent), and loans from commercial banks and other entities (1.7 percent).

##### *5. Significant Barriers to U.S. Exports*

**Import licenses:** Although Jamaica has made considerable headway in trade liberalization, some items still require an import license, including milk powder, plants and parts of plants for perfume or pharmaceutical purposes, gum-resins, vegetable saps and extracts, certain chemicals, motor vehicles, arms and ammunition, certain toys such as water pistols, and gaming machines.

**Services barriers:** Foreign investors are encouraged to invest in almost every area of the economy. In September 1999, the Government of Jamaica and Cable and Wireless of Jamaica, Ltd. agreed to accelerate the end of the monopoly rights originally granted to Cable and Wireless until 2013. This agreement will phase-out Cable and Wireless' telecoms monopoly over the course of three years (i.e., by 2003). During the first phase in 1999/2000, the Government of

Jamaica issued two mobile phone licenses to Digicel (an Irish company) and U.S.-based cellular company Centennial Communications Corp. Phase Two of the telecommunications sector's liberalization became effective September 1, 2001, when full facilities based competition in domestic services including Internet access using cable television networks and wireless local loop began. However, there are still certain restrictions in the communications field: under the cable television policy, preference in licensing is given to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or CARICOM member-state nationals. The Embassy is not aware of any other economic or industrial strategies that have discriminatory effects on U.S. owned investments.

**Standards, testing, labeling, and certification:** The Jamaican Bureau of Standards administers the Standards Act, the Processed Food Act, and the Weights and Measures Act. Products imported into Jamaica must meet the stipulations, including labeling requirements. Items sold in Jamaica must conform to recognized international quality specifications. Imported goods are expected to conform to the metric system. In most cases, Jamaica follows U.S. standards. In recent years, the Bureau has become increasingly vigilant in terms of monitoring the quality of products sold on the local market. As of September 14, 2000, the Customs Department began to collect a new standards compliance fee of 0.03 percent of CIF from importers on behalf of the Bureau of Standards. The Quarantine Division of the Ministry of Agriculture inspects and determines standards in the case of live animals. The Ministry of Health inspects meat imports. No animal carcasses (meat, bones, hide, skin, hooves, etc.) can be imported without a permit issued by the Director of Veterinary Services, Jamaica, along with an official health certificate issued by an official government veterinarian.

**Investment barriers:** The Government of Jamaica welcomes foreign investment and there are no policies or regulations reserving areas exclusively to Jamaicans. Foreigners are not excluded from participation in privatization/divestment activities. While each investment proposal is assessed on its own merits, investments are preferred in areas which may increase productive output, use domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology. The screening mechanisms are standard and nondiscriminatory. The main criterion is the credit-worthiness of the company. Environmental impact assessments are required for new developments. Both foreign and domestic companies complain that "red tape" is an obstacle to doing business, but foreign investors are not treated differently than domestic investors, either before or after establishment.

**Government procurement practices:** Government procurement is generally done through open tenders. U.S. firms are eligible to bid. The National Contracts Commission is the central body responsible for awarding government contracts.

**Customs procedures:** An ongoing modernization program at the Customs Department includes the computerization of most customs operations. However, inadequate staffing and administrative problems at Customs still result in periodic delays.

**Anti-Dumping laws:** On July 1, 1999, the Government of Jamaica implemented the amended Customs Duties, Dumping and Subsidies Act. Among other things the Act establishes

an Anti-Dumping and Subsidies Commission. Safeguard legislation (protecting industries from serious injuries caused by a sudden surge in imports of a particular item) has been submitted to the Cabinet for approval.

## *6. Export Subsidies Policies*

The Export Industry Encouragement Act (EIEA) allows approved export manufacturers access to duty-free imported raw materials and capital goods and exempts those manufacturers from income and dividend taxes for a maximum of ten years. However, in accordance with the WTO Agreement on Subsidies and Countervailing Measures, the incentives offered under the EIEA will be phased out by 2003. Other incentives are available from the Jamaican government's Export-Import Bank, including access to preferential financing, lines of credit, medium term modernization fund lending (at 12 percent interest) and export credit insurance. The Jamaican Export-Import Bank (EX-IM) and the Jamaica Exporters Association (JEA) introduced a joint-venture loan program targeting small exporters in 1999. The EXIM bank provides JDOLS 40 million for the program. JEA provides technical and financial support through its Small Business Export Development Project. In addition, effective September 2000, EXIM bank will make an additional JDOLS 150 million available to exporters at 9.5 percent for short-term pre-and-post shipment working capital.

## *7. Protection of U.S. Intellectual Property*

The Jamaican Constitution guarantees property rights, and Jamaica has enacted legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. Jamaica is a member of the World Intellectual Property Organization (WIPO) and a signatory of the Berne Convention (copyright protection). Jamaica and the United States signed a Bilateral Intellectual Property Rights Agreement in March 1994. In addition, the 1997 Bilateral Investment Treaty (BIT) also contains obligations to respect intellectual property.

Jamaican laws address major areas of intellectual property rights (IPR) protection. The Copyright and Trade Mark Acts were amended in 1999. Amendments to the Copyright Act protect compilation works such as databases. Amendments also protect individuals with rights in encrypted transmissions as well as in broadcasting or cable program services. In addition, the amendments grant a right of action against persons who knowingly infringe upon those rights for commercial gain. Remedies available include injunctions, damages, seizure and disposal/destruction of infringing goods. Penalties also may include fines or imprisonment.

A revised bill on patents has been drafted and submitted to the parliament for discussion. The government expects this bill to be passed before the end of 2001/early 2002.

Litigation is a viable option in protecting intellectual property. In individual lawsuits in Jamaican courts, a number of U.S. corporations have successfully defended their names and service marks against trademark infringement. Over the last three years, American companies



including Kmart and Costco International have successfully sued local trading companies for trademark infringement. Jamaican companies have also successfully taken IPR infringers to court. In August 2000, Paymaster Jamaica Ltd. sued Bill Express for infringing on its exclusive rights to computer software.

## 8. *Worker Rights*

a. *The Right of Association*: The Jamaican constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively*: Article 23 of the Jamaican constitution guarantees the right to form, join, and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. Industrial actions (generally brief strikes) are frequently employed in both private and public sector disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. About 15 percent of the work force is unionized, and unions have historically played an important economic and political role in Jamaican affairs. The public sector is highly unionized.

No free zone factory is unionized. Jamaica's largest unions claim this is because unionization is discouraged in the free zones. The ongoing contraction of the apparel industry and a lack of alternatives for its workforce (largely female heads of household, with minimal qualifications for other employment) are additional disincentives for unionization at the present time. However, in tourist areas, workers are often drawn away by more attractive employment opportunities in the local tourism sector.

c. *Prohibition of Forced or Compulsory Labor*: Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age of Employment of Children*: The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. Children are observed peddling goods and services, and there are scattered reports of children working in fishing villages. However, child labor is not institutionalized. Both government and societal views are intolerant of the practice and the use of child labor in formal industries, such as textiles/apparel, is virtually nonexistent.

In September 2000 the Government signed a memorandum of understanding with the ILO in preparation to ratify ILO Convention 182 on the prohibition and elimination of the "worst forms" of child labor.

e. *Acceptable Conditions of Work*: A 40-hour week with an 8-hour day is standard. Overtime and holiday pay are given at time-and-a-half and double time, respectively, except in the tourism industry. The minimum wage is JD 1,200 for a 40-hour week or JD 30 per hour though most workers are paid more. There are frequently additional allowances (e.g. for transportation, meals, clothing, etc.). Unemployment compensation or "redundancy pay" is

included in the negotiation of specific wage and benefit packages. Jamaican law requires all factories to be registered, inspected, and approved by the Ministry of Labor. Scarce resources and a narrow legal definition of the term “factory” combine to limit inspections.

*f. Rights In Sectors With U.S. Investment:* U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors and most of the firms involved are unionized, with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized; some outside the free zones are unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	(D)
Total Manufacturing	239
Food & Kindred Products	(D)
Chemicals & Allied Products	167
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	(D)
Wholesale Trade	259
Banking	(D)
Finance/Insurance/Real Estate	14
Services	53
Other Industries	1,969
<b>TOTAL ALL INDUSTRIES</b>	<b>2,596</b>

(D) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.